

Strategies and Processes for Value Addition in Agricultural Co-operatives in Tanzania

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1.0 INTRODUCTION

A Co-operative Society is an institutional form of organized means of collective action that is formed by a group of individuals who on the basis of equity contribute to build assets to form an organisation that is ran democratically and the members share its costs and benefits, on the basis of equality. The collective action and processes of a cooperative organisation must be destined to add value to all the business that is collectively performed so that members attain higher levels of standard of living and improved quality of life. It is an organisation which creates the most profitable connections between supply and demand, for the benefit of its members who are is shareholders.

As such therefore, co-operatives are guided by internationally accepted principles which can be used as yardstick to measure management and leadership competence, the conduct of collective business and the rules of good governance. As means of collective action against poverty, we must distinguish two concepts of the co-operative idea: the cooperative process and the co-operative organisation. The co-operative process is the natural need for interpersonal co-operation. Human beings have historically needed the act of co-operation throughout their lives. The act of co-operation and the need for it, will never die. The co-operative organisation or society is the concretisation of the cooperative process into an objectively determined collective structure of organisation, formalized legally as a legal entity. Process will not die; the organisational formation may die and rise, again depending on the ambitions of members and the obtaining socioeconomic and legal environment.

Based on needs of its members, the co-operative organisation may be formed in all spheres of possible economic action. It may be formed in consumer, financial or agricultural marketing activities. The other areas of possible economic action, include agricultural production, joint agro-input supply, fishing and fish-farming, industrial production and technical and professional services.

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1. There are four pillars of good governance in organisations. These are: Transparency, accountability, predictability and member participation.

In this presentation, we are going to deal with value adding in agricultural marketing cooperatives. It will look at the theme in the following aspects: the conceptual framework, reflection of history of agricultural marketing co-operatives in Tanzania, the current context and objective reality, international study cases, in agricultural marketing cooperatives and the way ahead.

2.0 CONCEPTUAL FRAMEWORK

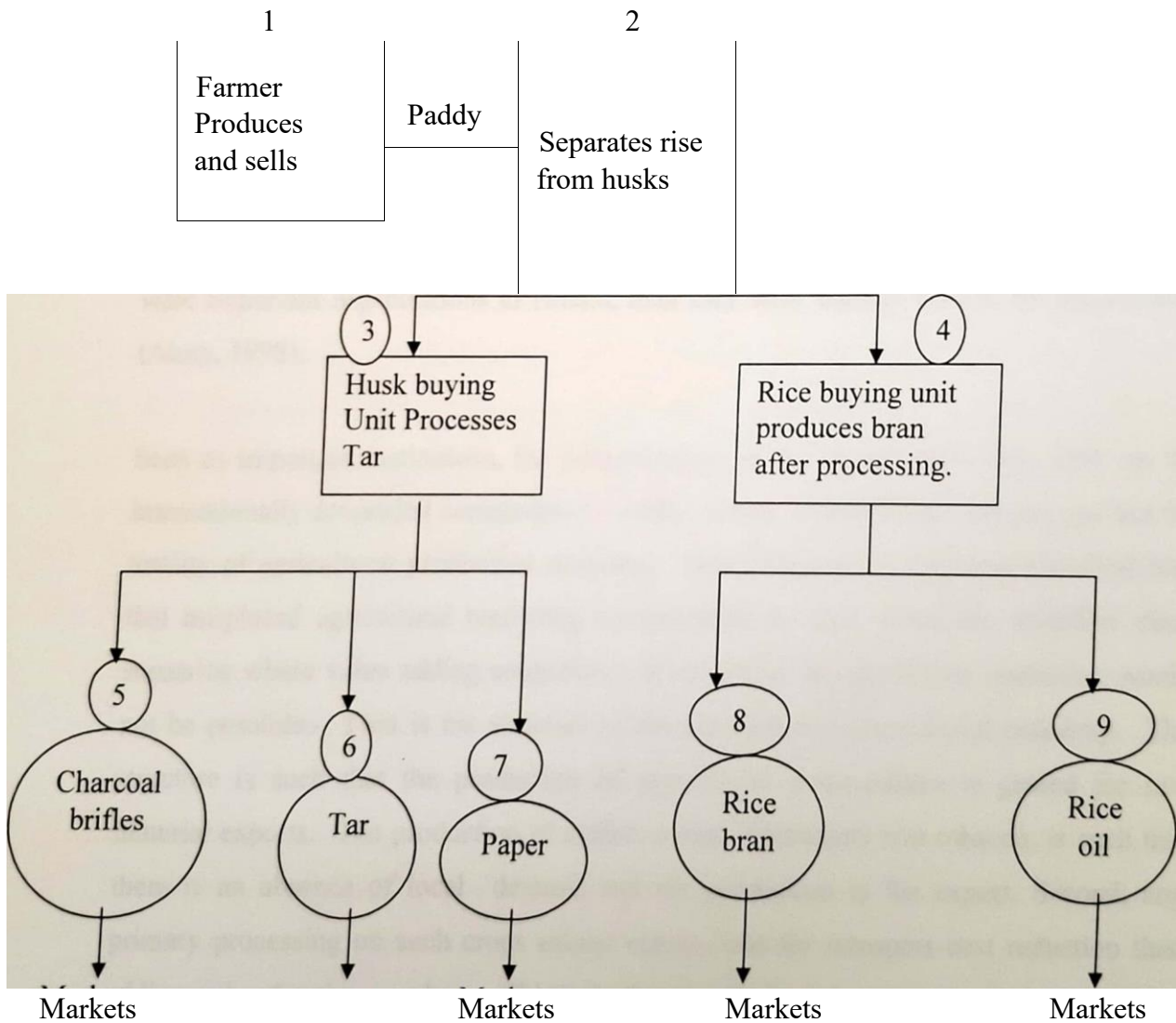
Agricultural Marketing Co-operatives are those co-operatives formed by members in order to perform the marketing of their agricultural produce. The aim of agricultural marketing co-operative societies, is to create opportunities where the co-operative organisation improves the conditions of life of its members through strategically selected marketing interventions. It is not formed for general marketing arrangements of transformation from sellers of a commodity to buyers. Strategically selected marketing interventions are all visible marketing actions and processes that improve the income and other advantages of joint marketing action. One of the quality indicators of strategic marketing is the attainment of the best price offered to a commodity at the minimum cost. It is the best price that attracts every member in a co-operative society to sell to a particular buyer. Value adding is one of the basic strategic marketing interventions that prepare a commodity to attain the best offered prices in the market.

In terms of accounting, value added is the difference between the value of inputs and the value of output at every stage of the transformation of a commodity. A trader buying a commodity at T.shs. 10.00 and sells it at 10.50, the value added is Cts. 50. Agricultural production activity is a process of adding value because generally, the value of inputs to a unit of output is expected to be lower than the price per unit. If this does not happen, then the farming business is at losses. When a

commodity is technically and industrially processed, it enters into a wider framework of value adding than it is at any stage of its transformation. Agro-processing is therefore an industrial process that transforms a commodity into different attributes of end use. Paddy for example, can be transformed into rice, rice husks, rice bran, cooking oil, paper and tar. Each of the final products and by-products, have different cost profiles but more important they have different prices, therefore different revenue advantages to the members.

There are therefore, two types of value adding systems to agricultural production: the value adding activities and value adding vertical integration (Rehber: 2000). The act of harmonizing vertically independent production and distribution activities under one system of organisation and management, is called vertical integration. But this harmonization of otherwise vertically independent production and distribution units, is not automatic, it must be organized strategically, as figure I below indicates.

Figure 1: Vertical integration in Paddy Production and Distribution



There could be 9 independent business units adding value to the paddy-commodity chain.

But all these stages of the paddy transformation chain, could be under one management and organisation so that value added by all units remains in the organisation, Value adding activities are the isolated non-transformative activities which add value to a commodity through primary production, on farm quality control, grading, standardization and advertising. Although value adding activities could also be part of the technical processing framework, they could as well be performed independently and freely, without agro-processing.

The main argument of this paper is, irrespective of various value adding activities, the technical transformation value adding is the most critical and sustainable for the members. Secondly, any agricultural marketing co-operative, must make a thorough search of its commodity chain to see where more money can be made from spot markets to complete integration (Rehber: 2000).

3.0 HISTORY OF AGRICULTURAL MARKETING CO-OPERATIVES IN TANZANIA

Historically, contractual co-operation was imported from the colonial countries to the colonies. The British Foreign Secretary for the colonies, argued that if co-operatives were important organisations to Britain, then they were equally critical for the colonies (Almy, 1998).

Seen as important institutions, the concretization of the co-operative idea, took on the internationally demanded commodities — coffee, cotton, cashews and tobacco, and not the totality of agricultural production activities. This introduced a negative historical bias that misplaced agricultural marketing co-operatives to date. There are therefore three scenarios where value adding cooperative development in agricultural marketing would not be possible: First is the structure of the colonial and postcolonial economy. The structure is such that the production of agricultural commodities is geared for raw material exports. The production of coffee, cotton, cashewnuts and tobacco, is such that there is an absence of local demand and the production is for export. Second, any primary processing on such crops except cotton, was for transport cost reduction than adding value for the members. Third, the historical bias of cash-crops based economy, was extended to food and other types of crops. These other crops, were completely negated from the co-operative marketing framework. Although efforts at independence tried to bring them in, the marketing structure continued to reject them. Agricultural marketing co-operatives could not consider food crops as important business crops and therefore today we have very low agricultural co-operative action in the food sectors.

The role of the national organisational structure of co-operatives, was basically to the transfer of value from small farmer members to multinational companies where serious agro-processing and value adding would and is still carried out.

4.0 THE NATIONAL CONTEXT AND REALITY

There are three scenarios for the strategic future of organisations under competition and globalisation. These are the denominator or cost-cutting management, re-engineering or continuous improvement and total structural transformation rediscovery (Clarke and Clegg: 2000). Organisations which adopt cost-cutting measures only, will survive in the short-run. They deal with retrenchments, hiving off some activities. Also, those carrying out re-engineering, end up by making continuous improvements while their basic structures remain traditional. This type of organisation is not even sustainable because they will tend to hire expensive consultancies for short term improvements. The third scenario is complete transformation by reflecting and re-creating new organisations by building or introducing new structures, operations and making major shifts. Under

the third scenario, organisations re-position themselves as new organisations in completely new situations. Such organisations will continue changing and become sustainable as future organisations.

After liberalisation policies, most marketing co-operative unions have become redundant, but they all adopted cost cutting measures as the easiest strategy. As a result, they have cut down many costs including critical support services to the members, such as crop finance facilitation and the supply of agricultural inputs. But also, what has come as a distortion of member empowerment is the absence of value adding discussions in cooperative organisations. The members are not well informed on how value is made in the whole marketing chain of their commodity. There is no communication between cooperatives and their members on what possibilities for adding value existed for their respective commodities. For example, in the cotton marketing chain, the members are not informed on how much money is made out of cotton cake, cotton oil, cotton soap and cotton lint. Unions are doing their business and maximize profits. The unions have stayed on with old organisational and business structures where the primary societies and members are servants to the business of the union, becoming poverty distribution centres. The marketing expertise at the union level is grossly underutilized because they are dealing with a single crop while the members produce wide varieties of crops which need marketing efforts too.

5.0 INTERNATIONAL STUDY CASES

5.1 ANAND Milk Producers Co-operative Union of India

- Links 957 primary societies producing milk
- 350,000 members
- Supports, milk producers marketing, supply of technical inputs and extension services.
- Supports organisational development
- The union exists to add value to the milk produced by the members.
- Revenue from milk and milk by-products goes back to the members.
- The union receives commission for services provided to the members
- The union does not own the milk and its by-products
- The primary societies have space and freedom to grow.

5.2 Uganda Areas Co-operative Enterprise (ACE)

- The co-ordinates 8 -10 primary societies.

- ACE does not own crops, never own independent loans but co-ordinates credit for its member primary societies.
- Links the primary societies with the best buyers in the market for all crops produced by their members.
- ACE is a development support organisation that sees possibilities for adding value to members produce.
- ACE searches for markets and market connections for all types of crops produced by the members.

6.0 THE WAY AHEAD

Looking from what we have pointed out above, there is need to give a fresh look at our agricultural marketing co-operatives, in the following strategic guidelines.

6.1. Co-operatives as Value Adding Organisations

The existence of marketing cooperative organisation be at primary or secondary, should be tested against its ability to add value to its members produce. For any marketing activity organized through co-operatives, members should be sensitized and take action on what range of value adding activities and what possibilities exist for agro-processing value addition than carrying out the traditional simple transfer of value.

6.2 Diversification

Agricultural marketing co-operatives should be re-defined as marketing organisations which manage the marketing process of all crops produced by their members, rather than defining them as single crop organisations. As such, the cooperative organisation be at primary or secondary levels, will operate like a commodity exchange centre.

6.3 Financial services

The role of co-operative organisations is to link the members and the best markets. Co-operatives as such and especially unions should be concerned with co-ordination of markets, value addition and money while primary societies exercise real business of their respective crops

